



## Delors III: A Multiannual Financial Framework for Unity and Prosperity

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Author(s):

Philip Pilkington

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**Philip Pilkington**, Senior Research Fellow, HIIA

## **DELORS III: A MULTIANNUAL FINANCIAL FRAMEWORK FOR UNITY AND PROSPERITY**

In July 2025, the European Commission presented its proposals for the 2028–2034 Multiannual Financial Framework (MFF). Overall, the MFF proposes a budget of around €1.8 trillion over the course of seven years, an enormous increase on the previous 2021–2027 MFF. The revenue needed to raise these funds is coming from new sources, which is giving the Commission new taxation powers over Member States. There are also enormous changes to the way the spending categories are outlined. These changes are justified by the Commission on the basis that they will increase flexibility to sign off on projects. But what they ultimately amount to is a budget of around double the size, with half the transparency. It also means that the Commission, an institution that many Member States consider as having too much centralized power, will gain even more power both in terms of its raw spending power and its ability to distribute funds to the projects it sees fit.

In what follows, we will give a critical overview of the new proposed MFF framework. In this critical overview, we will advise that the new MFF should have greater transparency, curtail its new revenue raising power which are based on “micro-taxes,” and ultimately rein in spending to more modest levels in keeping with realistic expectations of future economic growth. We believe that this is the best and most sustainable path forward. It is also the path forward that is most in keeping with the ideals and values of the European Union. However, because the European Commission might insist on greater spending, we will also propose a budget that is more so geared toward long-term economic growth. The current MFF does not seem to give any consideration at all to the issue of economic growth.

We propose a new framework for growth that focuses more on labor force growth than on productivity growth. We also propose a novel, decentralized mechanism for disbursing the funds needed to promote this growth.

We will also address the issue of the ability of the European Commission to withhold payments from the centralized budget to Member States based on “rule of law” violations. Withholding payments based on very egregious human rights violations is perfectly reasonable. But the “rule of law” category has become increasingly politicized. This erodes the ties of trust that bind European Union institutions and Member States together. It also makes responsible budgeting almost impossible because Member States can never be sure that they will get out what they pay in. We advocate a new legal mechanism to investigate and frame “rule of law” violations that will have far more democratic accountability.

The first two MFFs, spanning 1988–1992 and 1993–1999, were informally called “Delors I” and “Delors II” after Jacques Delors, President of the European Commission between 1985 and 1995. Delors was against arbitrary centralization and was a strong proponent of national sovereignty and subsidiarity. In a speech to the College of Europe in October 1989, Delors said, “The Commission must never become intoxicated by the extent of its powers. It rigorously applies the subsidiarity principle.”<sup>1</sup> Delors’ vision was embedded in the original MFFs that bore his name. This vision seeks to balance the needs of Member States with the needs of the European Commission to ensure a stable working relationship between the two based on mutual trust, a clear delineation of roles, and respect. Our proposal should be read as a call to return to the vision of President Delors.

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<sup>1</sup> Delors, J. (1989, October 17). *Address given by Jacques Delors (Bruges, 17 October 1989)* [Speech]. Centre virtuel de la connaissance sur l’Europe. [https://www.cvce.eu/content/publication/2002/12/19/5bbb1452-92c7-474b-a7cf-a2d281898295/publishable\\_en.pdf](https://www.cvce.eu/content/publication/2002/12/19/5bbb1452-92c7-474b-a7cf-a2d281898295/publishable_en.pdf)

## HOW MUCH IS TOO MUCH?

The current plans being floated for the 2028–2034 MFF show an enormous increase in spending. The 2021–2027 MFF allocated €1.074 trillion to be spent over the seven-year period. The plans being floated by the 2028–2034 MFF suggest increasing this budget to €1.8 trillion, an increase of almost 80 percent. It is difficult to make sense of this increased spending on its face.

Table 1 below shows these two budgets together with nominal GDP growth projections for both periods. Nominal GDP is the best way to think about scaling the budget because it counts both inflation, which erodes the value of debt, and GDP growth, which allows the EU to support the debt. With these nominal GDP numbers, we can then “deflate” the value of the debt to get an estimate of how much is being added over seven years to the debt load of the EU. What we see is quite shocking. After seven years of around 4.54 percent annual nominal GDP growth, the real increase in the debt load of the EU is around €786.9 billion. But after seven years of the proposed 2028–2034 budget, the real debt load rises to around €1.4508 trillion—almost twice as much.

MFF	GDP Growth Projection	Total Budget (Billions of Euros)	Deflated Debt Load
2021–2027	4.54%	1074	786.9
2028–2034	3.13%	1800	1450.8
2028–2034 (excluding NextGenEU Debt Service)	3.13%	1650.7	1330.5
		Total Budget with NextGenEU (Billions of Euros)	Deflated Debt Load
2021–2027		1824	1336.485582
2028–2034		1800	1450.839906

*Table 1. The 2021–2027 MFF and 2028–2034 MFF Compared to GDP Growth Projections and Debt Load. Source: Author’s Calculations.*

This does not seem like prudent budgeting to us. The fiscal situation in the EU since 2021 has deteriorated dramatically, especially with the impacts of the pandemic and the war. Now is not the time to double the overall contribution to the debt load by the MFF. If anything, we should be considering scaling down MFF commitments as Member States try to consolidate their own national budgets. We get some hint, however, as to why the European Commission is considering such a large increase when we add in the spending that was undertaken as part of the Next Generation European Union (NextGenEU) stimulus package. When we add this spending, we get an overall 2021–2027 budget of around €1.824 trillion. When we deflate this by the 2021–2027 nominal GDP growth figures, we arrive at roughly €1.3365 trillion—very close to the number we come to for the proposed 2028–2034 budget.

Even when we subtract the debt service costs of the NextGenEU spending, which will amount to €149.4 billion between 2028 and 2034, we see that the numbers are comparable. In fact, when we subtract the debt service costs, we get a deflated number of €1.330 trillion, almost identical to the deflated cost of the 2021–2027 budget with NextGenEU included. We should make clear that it is not standard to subtract debt service costs from an overall budget. National governments include these payments in any budget that they vote on. But even when we exclude these repayments to give the advocates of the proposed budget their fairest hearing, we find that the 2028–2034 budget seems to take for granted carrying the NextGenEU spending, which was supposed to be an “emergency” Keynesian stimulus measure, forward indefinitely.

## **NOT LETTING A GOOD CRISIS GO TO WASTE**

What the European Commission is proposing is normalizing the spending that was undertaken through the NextGenEU stimulus package and making it a permanent part of EU-wide spending. The problem with this is not just that the fiscal position of Member States is worse today than

in 2021, but also that the NextGenEU spending package was supposed to be a once-off stimulus package to help the European economy recover from the pandemic. In the State of the Union address during which she launched the NextGenEU program, European Commission President Ursula von der Leyen noted that the program was a “unique and unprecedented” response to an “unprecedented crisis.” There is no indication in her speech that the intent was to make NextGenEU spending a permanent part of the MFF.<sup>2</sup>

In fact, the European Commission is implicitly asking that the NextGenEU be made effectively permanent at the same time that they acknowledge that repaying previous NextGenEU spending is now a substantial component of the overall budget. It is estimated that NextGenEU repayments will cost around €149.3 billion between 2028 and 2034.<sup>3</sup> This is equivalent to 8.3 percent of the entire budget. But perhaps more importantly, it is equivalent to around 14 percent of the 2021–2027 budget. This raises the question of how much debt repayments will make up in the future. The example of NextGenEU seems to indicate that the European Commission is trying to build up an enormous federal funding system with consistent, large interest payments on debt. This becomes doubly concerning when we find that they are also advocating more options for enormous borrowing under the Extraordinary Crisis Mechanism, which makes room for a potential increase in borrowing of up to €400 billion on top of the entire MFF budget.

The rise of large, centralized fiscal state entities is well-studied by economic historians. The main driver of the creation of centralized fiscal states is the significant expansion of the debt burden of a state, which then creates a large burden of interest payments. In theory, if a state issued a large amount of debt in an emergency, it could then introduce a single portfolio of taxes that would pay this

2 Von der Leyen, U. (2020, September 16). *State of the Union Address by President von der Leyen at the European Parliament Plenary* [Speech]. European Commission. [https://commission.europa.eu/strategy-and-policy/state-union/state-union-2020\\_en](https://commission.europa.eu/strategy-and-policy/state-union/state-union-2020_en)

3 European Parliament. (2025). *EU Budget 2028–2034: Overview of the Commission's proposal*. [https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/775885/EPRS\\_BRI\(2025\)775885\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/775885/EPRS_BRI(2025)775885_EN.pdf)

debt off over time. But the fact that debt requires interest payments means that large debt burdens start to take on a life of their own. Interestingly, the rise of large, centralized fiscal state entities is often driven by spending associated with large-scale wars. This is of particular interest in the European context today because of the large expenditures the European Commission is engaging in to support Ukraine in its war efforts.<sup>4</sup>

Ideally, given the fiscal situation in Europe and the fact that the NextGenEU spending was never supposed to be a permanent part of the MFF budget, we think that it would be best to return discipline to the budget and shrink it so that it is the same size as the 2021–2027 budget adjusted for GDP growth and inflation. This should be the baseline for any discussion that takes place about the 2028–2034 MFF moving forward.

## **LACKING TRANSPARENCY**

The other issue with the current MFF is that it lacks transparency. The website that lays out the new framework states that the budget headings have been “simplified,” but what has happened is that headings that were once transparent have been lumped together in a way that makes it confusing for policymakers and citizens to know what the funds are being spent on. The 2021–2027 MFF proposal and the 2028–2034 MFF proposal are laid out in Table 2 and Table 3, respectively. As we can see, the number of headings has been reduced from seven to four. Meanwhile, the number of instruments has been reduced from 32 to 16. In effect, the new MFF eliminates roughly half of the accounting details that were previously provided to European policymakers and citizens. Recall that the European Commission is advising roughly doubling the budget when we account for growth and inflation. European citizens are being asked to pay twice as much and are being given half as much information on what their money is being spent on.

<sup>4</sup> Yun-Casalilla, B., O’ Brien, P. K., & Comín, F. C. (2012). *The Rise of Fiscal States: A Global History, 1500–1914*. Cambridge University Press.

Spending Category	Allocation (Billions of Euros)
<b>1. Single Market, Innovation, and Digital</b>	132.8
<b>Horizon Europe</b>	86.1
<b>InvestEU Programme</b>	9.1
<b>Digital Europe Programme</b>	6.8
<b>EU Space Programme</b>	13.2
<b>Connecting Europe Facility (Digital/Transport)</b>	15
<b>Other (Single Market, SMEs)</b>	2.6
<b>2. Cohesion, Resilience, and Values</b>	377
<b>European Regional Development Fund (ERDF)</b>	200
<b>Cohesion Fund</b>	43
<b>Other Cohesion Programs</b>	3
<b>European Social Fund Plus (ESF+)</b>	88
<b>Erasmus+</b>	21.2
<b>EU4Health</b>	5.1
<b>Creative Europe</b>	1.8
<b>Citizens, Equality, Rights, and Values</b>	1.4
<b>Other Resilience Programs</b>	30
<b>3. Natural Resources and Environment</b>	356.4
<b>European Agricultural Guarantee Fund (EAGF)</b>	258.6
<b>European Agricultural Fund for Rural Development (EAFRD)</b>	77.8
<b>European Maritime, Fisheries, and Aquaculture Fund (EMFAF)</b>	5.7
<b>LIFE Programme</b>	4.8
<b>Other (Market Interventions, Monitoring)</b>	2
<b>4. Migration and Border Management</b>	22
<b>Asylum, Migration, and Integration Fund (AMIF)</b>	8.7
<b>Integrated Border Management Fund (IBMF)</b>	6.3
<b>Other (Migration Partnerships, Emergency Measures)</b>	7
<b>5. Security and Defence</b>	13
<b>Internal Security Fund (ISF)</b>	1.7
<b>European Defence Fund (EDF)</b>	7.9
<b>Other (Cybersecurity, Nuclear Safety)</b>	3.4
<b>6. Neighbourhood and the World</b>	98

<b>Neighbourhood, Development, and International Cooperation Instrument (NDICI-Global Europe)</b>	79.5
<b>Humanitarian Aid</b>	10.3
<b>Common Foreign and Security Policy (CFSP)</b>	2.4
<b>Other (Pre-Accession Assistance, Overseas Territories)</b>	15.9
<b>7. European Public Administration</b>	73
<b>Administrative Expenditure</b>	71
<b>European Schools and Training</b>	2
<b>Total</b>	1074.3

*Table 2. 2021–2027 MFF Proposal. Source: European Commission.*

<b>Spending Category</b>	<b>Allocation (Billions of Euros)</b>
<b>1. National and Regional Partnership Plans</b>	894
<b>European Regional Development Fund (ERDF) / Cohesion</b>	Aggregated in ~894 total
<b>Common Agricultural Policy (CAP) / Agriculture</b>	Aggregated in ~894 total
<b>European Social Fund (ESF) / Social Policies</b>	Aggregated in ~894 total
<b>Other (Rural/Maritime Prosperity, Security)</b>	Aggregated in ~894 total
<b>2. European Competitiveness, Prosperity, and Security</b>	~631
<b>European Competitiveness Fund (including Horizon Europe)</b>	450.5
<b>Defence and Space Window</b>	131
<b>Erasmus+</b>	40.8
<b>AgoraEU (Culture/Media/Civil Society)</b>	8.6
<b>Other (Single Market, Customs, Justice)</b>	Included
<b>3. Global Europe</b>	~204
<b>Global Europe Instrument</b>	200.3
<b>Humanitarian Aid / CFSP</b>	3.4
<b>Other (Overseas, Pre-Accession)</b>	Included
<b>4. European Public Administration</b>	108
<b>Administrative Expenditure</b>	~108
<b>European Schools / Training</b>	Included
<b>Ukraine Reserve</b>	100
<b>Flexibility Instrument / Crisis Mechanism</b>	Up to 400 (loans)
<b>Total</b>	1800

*Table 3. 2028–2034 MFF Proposal. Source: European Commission.*

The justification for this presented by proponents is that it will increase “flexibility” in allocating resources. One proponent argues, “Given that the current application process is felt complex and costly, the Commission proposes to reduce the number of programmes in the next MFF from 32 to 16 and establish more harmonised rules.”<sup>5</sup> When the number of rules are reduced, the amount of arbitrariness in decision-making is increased. This might be acceptable in a highly democratic institution because the decision-makers can be easily replaced by citizens. But the European Commission is known to lack democratic accountability. When the Commission insists on increasing the arbitrariness in its decision-making by reducing the rules that they must follow, they are simply increasing their power. Member States who agree to a budget with clear rules at least know that the Commission must follow these clear rules. If the rules are not clear, Member States are simply handing the Commission enormous arbitrary powers over the money they have placed under its jurisdiction.

We have already seen a clear example of this from the European Commission. In 2021, the European Union found itself lagging behind countries like the United Kingdom and Israel in securing access to COVID-19 vaccines. It was argued at the time that this was due to inflexibility on the part of the European Commission when it came to allocating spending—the same argument that is currently being used to justify the lack of transparency in the newly proposed budgetary framework. Ursula von der Leyen decided to try to break this deadlock by personally communicating with various corporate leaders via text messages to secure the doses. While von der Leyen ultimately succeeded in securing the needed vaccines, she has been widely criticized for her approach because it lacked transparency and could have led to the European Union paying much too high a price for these vaccines—possibly over 25 percent above the market rate for a deal worth around €21.5 billion.

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5 Wahl, T. (2025). Commission Proposal on Multiannual Financial Framework 2028–2034. *Eucrim*, 2025(2), 136–137. <https://eucrim.eu/news/commission-proposal-on-multiannual-financial-framework-2028-2034/>

After the media tried to inquire into the deal, the Commission hid the details from the public, leading to a judgement by the European General Court in mid-2025 that the Commission was further violating transparency laws by withholding the information from the public. This incident shows what happens when transparency is reduced in European Union institutions in favor of “flexibility.”<sup>6</sup>

This is not acceptable. Unless the European Commission wants to massively increase democratic oversight in their institution, they must adhere to a clear rules-based framework. At the very least, the MFF budget should be restored to its original categories. If the European Commission wants to roughly double its spending power, it should be asked to double its disclosure. The Commission should invest in a website that will allow EU citizens, journalists, and policymakers to click through various headline numbers to see the breakdowns of what the money is being spent on. Ideally, this should be updated in real-time as money is allocated to various projects, and the projects themselves, in every European country, should be named and the details of their governance structure published. Europe works best when it works on maximum transparency and disclosure.

Particular attention should be paid to attempts to aggregate the funds of the Common Agricultural Policy (CAP), also known as the European Agricultural Guarantee Fund, into an aggregate financing that includes regional development, security, and the European Social Fund (ESF). The CAP fund is not simply one program among others; it is integral to the European project. CAP is one of the oldest EU-level funds. It was introduced in 1962 before the EU became the EU and remains one of the most important and popular EU-level programs today. It is also necessary to ensure food security—something that is particularly important in a world where global conflict is on the rise. The money aggregated

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6 Rankin, J. (2025, May 14). Von der Leyen’s texts with Pfizer boss can be shared, says EU’s highest court. *The Guardian*. <https://www.theguardian.com/world/2025/may/14/ursula-von-der-leyen-texts-with-pfizer-boss-european-court-of-justice>

under “National and Regional Partnership Plans” should be disaggregated before any discussion of the MFF is to move forward.

## PLACING RULES ON “RULE OF LAW” DECISIONS

Concerning the next Multiannual Financial Framework, the Commission aims to further centralize its discretionary power over fund distribution questions, using the “rule of law” as a tool. Not only does the general conditionality mechanism remain, which already allowed the Commission to propose the suspension of funds for individual Member States, but this mechanism is to be further developed in the National and Regional Partnership Plans (NRPPs). Such plans are not entirely dissimilar to the Recovery and Resilience Facility (RRF) national plans, where the Commission can essentially decide (with Council decision-making present but in practice often taking a back seat) if national plans are worthy of approval—also dependent on broader rule of law and EU values considerations.<sup>7</sup> More precisely, according to Commission plans, if these new NRPPs are not considered to respect the rule of law and the EU Charter of Fundamental Rights, a suspension of part of the funds can be proposed at any time.<sup>8</sup> It is the Hungarian position to reject this approach.<sup>9</sup>

But these kinds of steps by the Commission should raise objective concerns for all Member States. The Commission, in its original form, was a source of impartial political leadership and a civil service in the EU institutional system. Thus, it deservedly held the role of the “guardian of the Treaties” and guarantor of the fundamental values enshrined in the Treaties. However, much of the impartiality that ensured fairness in Commission processes has been lost with the advent of the “political Commission” since Juncker. The transition

7 European Commission. (2023, December 13). *Questions and Answers on Hungary: Rule of Law and EU funding*. [https://ec.europa.eu/commission/presscorner/detail/it/qanda\\_23\\_6466](https://ec.europa.eu/commission/presscorner/detail/it/qanda_23_6466)

8 European Commission. (2025). *Europe’s Budget: Strengthening the Rule of Law*. [https://commission.europa.eu/document/download/da01c579-6aab-4bca-9541-47ed8b18ed4e\\_en?filename=MFF\\_14\\_%20Conditionality-18.07.10h.pdf](https://commission.europa.eu/document/download/da01c579-6aab-4bca-9541-47ed8b18ed4e_en?filename=MFF_14_%20Conditionality-18.07.10h.pdf)

9 Hungarian Development Promotion Office. (2025, October 20). *Safeguarding Cohesion in a Competitive Europe: Hungary’s Vision*. *Euractiv*. <https://www.euractiv.com/opinion/safeguarding-cohesion-in-a-competitive-europe-hungarys-vision>; Orbán, V. [@PM\_ViktorOrban] (2025, July 16). *From Brussels to Budapest, discontent is spreading. While globalist bureaucrats plot to drain Europe’s money into Ukraine, our farmers are [Post]*. X. [https://x.com/pm\\_viktororban/status/194552647327796470?s=46&t=aszLnoIzIUUgw7vUSfr9A](https://x.com/pm_viktororban/status/194552647327796470?s=46&t=aszLnoIzIUUgw7vUSfr9A)

from a “functional administrative machinery” toward a political commission brought an inherent centralization logic that makes the College look more like a government with a strong executive head (the President) and political priorities (Political Guidelines). A clear example to the political Commission is that—for better or worse—the Rule of Law Reports of the Commission can be influenced by the Political Guidelines.<sup>10</sup> In other words, rule of law issues are influenced by political agendas.

As a consequence, the rule of law toolbox of the Commission is compromised.<sup>11</sup> Furthermore, the disjointed cobweb of mechanisms within this toolbox lacks transparency, both regarding what the Commission understands by the term “rule of law” and regarding the political goals for which its toolbox is applied. The process of infringement procedures, rule of law reporting, Article 7, the general conditionality mechanism, consideration of rule of law issues in RRF “super milestones,” and approaches to applying the EU’s Charter of Fundamental Rights in other cases are all different in their nature. They vary both in the basis for usage and in decision-making itself. Oftentimes, when it comes to important decisions, the Council must approve Commission proposals, which is positive. However, the agenda-setting powers of the Commission are great—and the importance of being able to choose how to politicize issues must not be underestimated.

The clearest example of this is that, even though the European Parliament and the Council are the decision-makers in the broader institutional design, the Commission is nevertheless considered to be an equal part of the legislative process. The implication of this is that agenda setting can be as important as decision-making. Phrased differently, Council decision-making in cases of rule of law

10 European Commission. (2025). *2025 Rule of Law Report*. [https://commission.europa.eu/strategy-and-policy/policies/justice-and-fundamental-rights/upholding-rule-law/rule-law/annual-rule-law-cycle/2025-rule-law-report\\_en](https://commission.europa.eu/strategy-and-policy/policies/justice-and-fundamental-rights/upholding-rule-law/rule-law/annual-rule-law-cycle/2025-rule-law-report_en)

11 European Commission. (2025, July). *Rule of Law Report 2025: Toolbox*. [https://commission.europa.eu/document/download/4d1be63d-ade7-4f87-82c8-4288c3609322\\_en?filename=EU%E2%80%99s%20rule%20of%20law%20toolbox\\_factsheet%202025\\_EN.pdf](https://commission.europa.eu/document/download/4d1be63d-ade7-4f87-82c8-4288c3609322_en?filename=EU%E2%80%99s%20rule%20of%20law%20toolbox_factsheet%202025_EN.pdf)

issues does not in itself guarantee a fair and transparent process. A concrete example of this is that the Commission's Rule of Law Report is the basis of debates in the General Affairs Council concerning these issues.<sup>12</sup> It is the Member States that decide, but it is the Commission that constructs the contextual framework for the debates.

If one accepts this as true, the question of what the Commission understands under the "rule of law" and how it frames it cannot be considered of secondary importance. This is particularly relevant given that there exists no unified interpretation of the concept. While the basic principles of the rule of law are shared, the historical trajectories of its development differ significantly across Member States. Many of the issues the Commission unilaterally classifies as rule of law concerns in its agenda setting can, in fact, be modern interpretations of liberal democratic approaches that are not inherently part of the rule of law itself. This allows LGBTQ matters to be framed as rule of law issues (with the Parliament going as far as to be explicit about this),<sup>13</sup> even though there is by no means a common understanding that such matters are intrinsically connected to the rule of law. Based on this example, the power of the Commission to define concepts that are otherwise integral to national sovereignty (as the rule of law is) may create problems for Hungary at present for reasons that other Member States may consider either justified or not. However, sooner or later, such dynamics will affect all members.

Due to the institutional design and the Treaties of the EU, the Commission will inevitably remain an integral actor in policing rule of law issues. From other perspectives, it should indeed remain so, as the defense of the financial interests of the EU budget (the main reason cited for the rule of law toolbox) is a justified goal. However, the ability of the Commission to unilaterally define, based on political agendas, what this entails can and should be curbed. The first proposal

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12 European Commission. (2025, July 8). *2025 Rule of Law Report*. [https://commission.europa.eu/document/download/0f7b852b-6b8a-4e21-8579-69db5386c6a2\\_en?filename=1\\_1\\_63910\\_communication\\_rol\\_en.pdf](https://commission.europa.eu/document/download/0f7b852b-6b8a-4e21-8579-69db5386c6a2_en?filename=1_1_63910_communication_rol_en.pdf)

13 European Parliament. (2025, June 18). *European Parliament resolution of 18 June 2025 on the Commission's 2024 Rule of Law Report*. [https://www.europarl.europa.eu/doceo/document/TA-10-2025-0129\\_EN.html](https://www.europarl.europa.eu/doceo/document/TA-10-2025-0129_EN.html)

is to reject the current approach of the “National and Regional Partnership Plans” in the new MFF proposal.

The second proposal is to curb the agenda-setting power of the Commission. This can be done by reforming the “Annual Rule of Law Cycle”—in practice the Rule of Law Reports by the Directorate-General for Justice and Consumers (DG JUST). At present, these reports are compiled by the Commission in line with its own interests and subsequently serve as the basis for debates across multiple rule of law mechanisms. Additionally, the reports have no sound objective or methodological basis. National authorities are consulted, but so are other actors on a more or less ad hoc basis. In the current MFF negotiations, this lack of objectivity in the preparation of the reports is often cited as a criticism by multiple Member States.

The constructive part of the second proposal is to transfer the rule of law reporting process to a newly created independent body established as a specialized institution to assist the EU in fulfilling this task. Such “bodies” already exist, and EU law and Treaties allow for specialized institutional mandates.<sup>14</sup> The mandate of this body, with the provisional name of European Committee for the Rule of Law (ECRL), would be twofold: (1) to help construct an objective methodology used for rule of law reporting and (2) to produce the reports that can form the foundation of rule of law debates, with the explicit appendix that currently no reports like this can be of legally binding nature. To safeguard the ECRL from undue influence by the Commission, the ECRL should be operationally under the Secretary-General of the Council, with its budget defined by the Council. Special managerial questions that require external decision-making should be decided by the (Secretary-General of the) Council.

An advisory oversight committee consisting of one person per Member State should be similarly appointed. The advisory oversight committee would double as a conduit for consultations with national authorities over rule of law questions. Such an arrangement would

14 European Union. (2025). *Types of institutions and bodies*. [https://european-union.europa.eu/institutions-law-budget/institutions-and-bodies/types-institutions-and-bodies\\_en](https://european-union.europa.eu/institutions-law-budget/institutions-and-bodies/types-institutions-and-bodies_en)

inherently enhance fairness and reinforce the role of the Council in decision-making when it comes to rule of law issues because the actor that would define the contextual framework for rule of law debates would be a lot “closer” to the decision-makers. Put another way, such a body would eliminate many of the aforementioned problems related to the agenda-setting powers of the Commission and would address new criticisms regarding objectivity. It is only proper that if the Council is required to make decisions over rule of law issues that inherently require qualitative research, then that qualitative research is done under the oversight of the Council. The mandate of the body would be to have an objective methodology in putting together the report. The goal of this new structure is to ensure that no reports on rule of law issues can be created as they are today—that is, in a politicized manner—rather they must be held up to a rigid, coherent, and objective methodology that has a broad consensus.

The rule of law issue generally opens a space in which the European Commission is trying to create conditionalities for funds that is not defined in any legally rigorous way. This risks dragging the European Court of Justice into matters that are purely political. This is not what European institutions were designed to do.

## **THE POLITICS OF GROWING A BUDGET**

We have just argued that the MFF 2028–2034 proposal should be vastly slimmed down. The budget as it is proposed is simply too big. As we have shown, there is little in the way of economic justification for the size of this budget. The expansion seems to be driven by the fact that the NextGenEU program gave the European Commission access to significantly larger spending powers during a crisis for what was effectively a Keynesian fiscal stimulus. These sorts of fiscal stimulus programs are designed by economists to provide a temporary boost to an economy that is either in a recession or facing the prospect of a recession. They are not designed to become permanent. Meanwhile,

the proposal will do little to address competitiveness issues in Europe and there is good reason to think that, especially on the revenue side, it will decrease economic efficiencies. In short, judged on a purely economic basis, the expansion of the European Commission budget is impossible to justify, and the ideal situation would be one in which the Commission keeps its budget roughly the same size as its last budget—perhaps adjusted for growth and inflation—and allows Member States to make their own taxation and spending decisions.

At the same time, however, it would be naive to think that the rationale for the expanded budget is purely economic. It should better be read as an effort to further centralize taxation and spending power in Brussels and give the European Commission more influence over the economy of the European Union. Whether this is a positive or a negative development depends on whether the European Union is better served with more federalism or less. While an economist can comment on this, this is ultimately a political matter. Understanding that public opinion on this issue is deeply divided in Europe, we will supplement our primary recommendations of maintaining the European Commission’s budget at present levels with a suggestion for what an optimal expanded budget would look like. To be clear, we believe that the strongest economic case is to maintain the budget at present levels. But understanding that there is a political dimension to this question and that those who favor increased federalism may ultimately win the debate on political grounds, we will also provide what we consider the template for an expanded budget that has the strongest economic case in its favor.

## **A BUDGET GEARED TOWARD LONG-TERM GROWTH**

### *Revenue*

As we have already seen, the MFF that the European Commission is proposing is too large relative to expected economic growth moving forward. When the European Parliament passed the NextGenEU stimulus package at the end of 2020 it was assumed to be a once-off

stimulus package designed to help the European economy recover from the pandemic and the lockdowns. The new MFF is formulated in such a way that assumes that the NextGenEU was passed to greatly expand the size and scope of the centralized budget of the European Union.

What is more, when we examine some of the programs put forward in the proposed MFF, we find that they have a negative rather than positive impact on the competitiveness of the EU economy and take key fiscal powers away from Member State governments. We do not think this is good for the EU economy moving forward. The MFF seems more focused on increasing revenue and spending than it is on making the European economy more robust, especially in the long run. In what follows, we will lay out an alternative budget that addresses the key issues of demographic change, long-term economic growth, and fiscal sustainability in a way that we do not believe the present proposal does. Here we will assume consensus on expanding the budget in line with the guidance set down in the current proposal but will advocate better taxation and spending priorities.

When it comes to taxation, we would argue that imposing specific taxes on Member States is a suboptimal way of raising revenue. Different Member States have different economies, and different economies have different optimal taxation structures. We would argue that the governments of individual Member States have better knowledge of the optimal tax structures for their particular economies. The change in the current MFF proposal that stands out most in this respect is the transfer of the power to levy excise taxes on tobacco from Member States to the Commission. It is well-known that many countries in Europe directly tie the collection of tax revenue from tobacco products to spending on their healthcare sectors.<sup>15</sup> This link is intuitively reasonable as tobacco use causes health problems and puts pressure on the healthcare system.

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15 Hoffer, A., & Macumber-Rosin, J. (2025, March 19). *The Future of EU Tobacco Taxation: Insights from Member States and Best Practices for the Next Tobacco Excise Tax Directive*. Tax Foundation. <https://taxfoundation.org/research/all/global/eu-tobacco-excise-tax-directive/>

The current MFF proposal advocates removing the revenue from tobacco excise taxes from Member States while leaving them with the same healthcare costs as before. The Commission is taking the revenue from tobacco sales and leaving Member States with the healthcare costs caused by tobacco usage. Take the example of Europe's largest economy: Germany. Current estimates suggest that tobacco use costs the German government around €35 billion annually and the German economy roughly €79 billion annually.<sup>16</sup> Excise taxes on tobacco currently raise only around €15.6 billion annually in Germany.<sup>17</sup> This means that the current excise taxes on smoking do not offset even half of the current costs to the German healthcare system, let alone to the economy overall. Removing this source of revenue will put an enormous strain on the German healthcare system.

Then there are the green taxes, especially the EU Emissions Trading Scheme (ETS). The ETS is a typical cap-and-trade scheme to reduce carbon emissions. But every cap-and-trade scheme is ultimately a form of corporation tax, which reduces the competitiveness of the European economy. But as we have already seen, with high energy costs after the war and European industry under threat, competitiveness is a key concern for the EU in the coming years, as laid out in the recent report by Mario Draghi.<sup>18</sup> We would advocate that the EU try to be as flexible as possible with taxes that harm the competitiveness of European industry until we are confident that this industry finds itself on a secure foundation. For this reason, we do not think that the revenues of the ETS should be tied to the MFF. Corporation tax should also not be tied to the MFF and should be left to Member States as a national competency for the same reason. Member States know the rate of corporation tax best suited to

16 Kastaun, S., Kotz, D., Brown, J., Shahab, L., & Boeckmann, M. (2019). Public attitudes towards healthcare policies promoting tobacco cessation in Germany: results from the representative German study on tobacco use (DEBRA study). *BMJ Open*, 9(8). <https://bmjopen.bmj.com/content/9/8/e026245>

17 Deutscher Zigarettenverband. (2025, January 30). *Tabaksteuer* [Tobacco tax]. <https://www.zigarettenverband.de/themen/zahlen-und-fakten/tabaksteuer>

18 European Commission. (2025). *The Draghi report on EU competitiveness*. [https://commission.europa.eu/topics/eu-competitiveness/draghi-report\\_en](https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en)

their national economies and can set it in a more efficient manner than Brussels.

We might refer to the new developments in the MFF as being an emphasis on the raising of “micro-taxes.” That is, rather than relying mainly on a “macro-tax”—i.e. imposing a flat GNI-based levy on Member States—the Commission seems to want to impose targeted taxes that they control on Member States. This implies that the Commission is claiming that it is better at imposing taxes on the citizens of Member States than the governments of the Member States. From an economic perspective, this seems highly unlikely to be true. At a fundamental level, the imposition of taxes like these represent redistributions of income within an economy. Redistributions of income are fundamentally political actions and should be undertaken by political bodies with maximum democratic oversight to ensure that there is at least some consent on the part of those on whom they are being imposed.

We advocate returning to the older system of revenue raising, that is asking each Member State to contribute on a percentage basis with reference to their overall Gross National Income (GNI). This more decentralized approach allows Member States to determine how best to raise the revenue needed for the MFF in line with their own national needs.

### *Spending*

We have already discussed issues with the consolidation of spending categories. This limits transparency. European citizens and Member State governments pay for the MFF budget, so they should be given the maximum amount of information regarding what it is being spent on. We believe that the MFF should not just return to the previous categorization of spending but also build an interactive online database where European citizens can click through various gateways to see where the money is being allocated in real time. The EU prides itself on being a democratic organization, and this will maximize accountability by

allowing European citizens to understand exactly how their money is being spent.

Even in the newly consolidated categories, however, three stand out that should be immediately removed from the MFF: AgoraEU, Global Europe Instrument, and the Ukraine Reserve. AgoraEU is an attempt to expand the EU's Citizens, Equality, Rights and Values (CERV) fund. The current MFF proposal argues that the CERV program should be turned from a €1.8 billion instrument in the 2021–2027 MFF into the €8.6 billion AgoraEU instrument—an increase of over 600 percent. Yet since 2021, the programs that were funded by CERV and which will be funded by AgoraEU have become extremely controversial. The United States government has moved to eliminate similar programs that were housed under the U.S. Agency for International Development (USAID), which shows how discredited these sorts of programs have become politically. We advocate recognizing that these sorts of programs are no longer desirable or functional and eliminating them altogether. Civil society programs should be funded by Member States to ensure that they align with the values of each country and are not used to aggressively push values foreign to the countries that make up the European Union. In short, we believe in respecting true cultural diversity and pluralism.

The Global Europe Instrument (GEI) was assigned a budget of €79.5 billion. The 2028–2034 MFF proposal advocates raising this to over €200 billion—that is, it proposes doubling one of the largest programs in the 2021–2027 MFF budget. Once again, this makes very little sense. The EU is less financially stable than it was in 2021 and its “global engagement” has proven disastrous in the 2021–2027 period. Increasing the budget for “global engagement” when this engagement has not been successful is clearly misguided. Engaging with the rest of the world is best left to Member State governments moving forward. If these governments decide to engage on a bilateral or multilateral basis with other countries via the EU, they can pool their resources on a case-by-case basis for such engagement. The EU was founded on the idea that Member States should have their own foreign policies. We believe that

massively expanding the budget of the GEI violates this core principle and instead advocate for defunding the instrument.

The Ukraine Reserve was created after the commencement of the Ukraine war. It is the first MFF mid-term revision with a spending increase ever to have taken place. Once again, those proposing the 2028–2034 MFF want to take an emergency measure and turn it into a permanent source of funding. This sort of “mission creep” has no place in the formulation of responsible budgeting. The future of the war in Ukraine is extremely uncertain. We have no idea what the situation will look like in 2028. We do not know what the borders in the region will be or which parties will fund the reconstruction of the country. Carving out €100 billion in financing for such an uncertain future is a recipe for wasteful spending. If money is needed for Ukraine in the late-2020s, this should be discussed when it becomes clearer how much is needed and what it is to be spent on. European leaders can then have an actual debate about this spending. The Ukraine Reserve is the definition of wasteful budgeting and should be scrapped in any serious budgetary discussion.

Finally, there is the Flexibility Instrument (FI) and the Extraordinary Crisis Mechanism (ECM). These are often lumped together, but they are actually very different instruments. The FI has an allocation of €15.8 billion, and it is seen as a pool in which to dip in case the MFF runs over budget. This is completely reasonable, and its small size ensures that it will not be abused. But the ECM is entirely different. This is one of the most dangerous proposals in the entire 2028–2034 MFF proposal. It allows for nearly €400 billion in loans that can be spent on anything so long as the Council and the Parliament jointly decide that there is a crisis that will have a “Union-wide impact.” €400 billion is roughly one quarter of the entire MFF budget and what this money is to be spent on is not made clear. Frankly, it is shocking that the European Commission would propose something so financially irresponsible. The ECM should be removed from the MFF proposal immediately, and no Member State that believes in even basic fiscal responsibility should allow this instrument to pass.

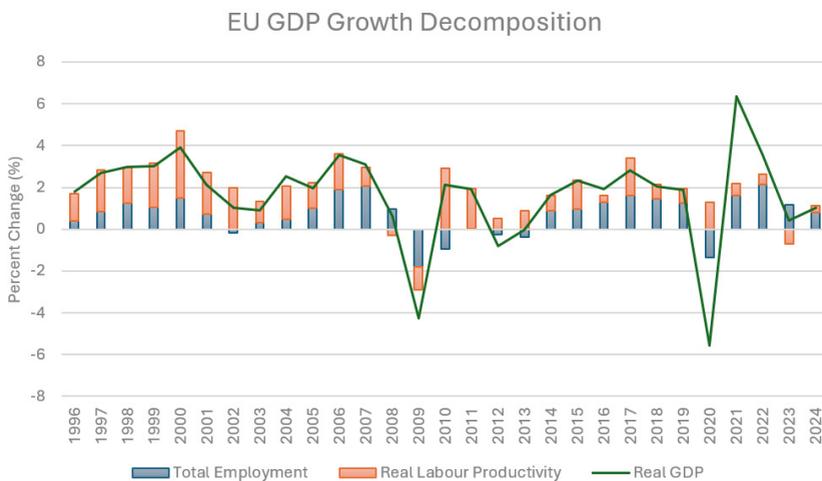
## EUROPEAN GROWTH IN THE TWENTY-FIRST CENTURY

Overall, the three fiscal categories we propose cutting are being allocated a total of €310 billion. We believe that rather than being wasted on these projects, this amount could be reallocated to significantly boost the long-term growth potential of the EU economy. Long-term economic growth is not just necessary to ensure rising living standards; it is also needed to ensure that the fiscal situation across Europe remains sustainable, something that cannot be taken for granted in a growing number of Member State countries. The key here is in understanding the severe impact that demographics are starting to have on European growth.

Figure 1 below shows the decomposition of GDP growth in Europe since 1996. The disaggregation is based on a simplified growth accounting framework.<sup>19</sup> Growth is broken down into employment growth, on the one hand, and real labor productivity growth, on the other. The intuition behind this is simple: GDP growth is ultimately driven by the growth in the number of employed workers and growth in the productivity of these workers, which is determined by the technical and organizational aspects of the economy. What we see in Figure 1 is that real labor productivity has fallen over time. We have already discussed reforms to the revenue side of the MFF to try to improve competitiveness. But these reforms will only prevent the EU economy from becoming less competitive—they will not increase the competitiveness of the EU economy.

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19 Hulten, C. R. (2009). *Growth Accounting* (NBER Working Paper 15341). National Bureau of Economic Research. <https://www.nber.org/papers/w15341>



**Figure 1.** EU GDP Growth Decomposition, 1996–2024. Source: Eurostat.

Beyond this, however, there are reasons to be skeptical that governments can meaningfully impact productivity growth in the economy. Productivity growth has been in secular decline across the world for decades, giving rise to the infamous “productivity puzzle.”<sup>20</sup> Productivity is a notoriously difficult concept and, since the statistic is ultimately a derivative, it is reasonable to ask if we are even sure what it is measuring.<sup>21</sup> It seems like a better approach might be to try to focus on the other component that drives long-run GDP growth: growth in employment. Since 2015, employment growth in the EU has accounted for around 61 percent of total growth while productivity has accounted for only around 39 percent.

Table 4 below shows average annual productivity growth during the period of each MFF since 1993. What we see is that robust productivity growth could only be assumed for the first two MFFs. While we do not have EU-wide productivity data for the Delors I package (1988–1992), it is reasonable to assume that productivity

20 Brynjolfsson, E. (1993). The productivity paradox of information technology. *Communications of the ACM*, 36(12), 66–77. <https://dl.acm.org/doi/10.1145/163298.163309>

21 Montier, J., & Pilkington, P. (2019). *Total Factor Productivity Growth = Totally Fictitious Pretentious Garbage*. GMO. [https://www.gmo.com/globalassets/articles/white-paper/2019/jm-and-pp\\_total-factor-productivity-growth\\_3-19.pdf](https://www.gmo.com/globalassets/articles/white-paper/2019/jm-and-pp_total-factor-productivity-growth_3-19.pdf)

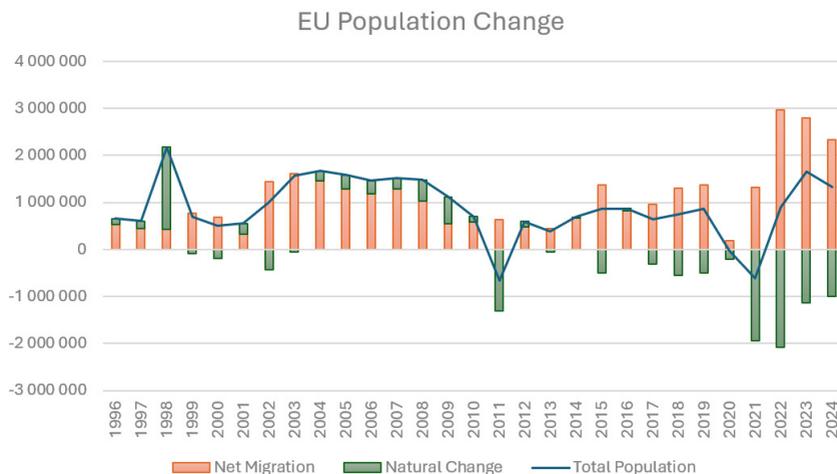
growth was robust in this period too. But for the last three MFF packages, we cannot assume that the European economy has robust productivity growth and budget for this outcome. This is a very surprising finding: Arguably, MFF frameworks are budgeted for based on the assumption of relatively robust productivity growth. Yet for three out of the six MFFs that have been put forward in history, this assumption has not held up. Something is broken here. Rather than decry the lack of productivity growth—or, at least, supplementing the decrying of a lack of productivity growth—perhaps we should focus on what is currently working: employment growth.

MFF	Average Annual Productivity Growth
Delors II (1993–1999)	1.78
2000–2006	1.81
2007–2013	0.81
2014–2020	0.99
2021–2027	0.18

*Table 4. Average Annual Productivity Growth During Each MFF Period Since 1993. Source: Eurostat.*

## REFOCUSING ON THE LABOR MARKET

In the long run, employment growth is driven by labor market growth. In the short run, there might be cyclical unemployment, but it is standard to assume that equilibrium unemployment is reached over the long run, so employment growth is ultimately determined by labor force growth. Labor force growth, in turn, is driven by population growth. In Figure 2 below, we have broken down population growth in the EU since 1996. What we see here is dramatic. Since 1996, most of the population growth has been driven by net migration into the EU. Over time, this trend has become increasingly dramatic, and since 2020 very high levels of net migration are required just to replace the people that are being lost. Without large amounts of net migration, the population of Europe is shrinking.



**Figure 2.** EU Population Growth, 1996–2024. Source: Eurostat.

This is clearly not sustainable. Assumptions that low population growth could be supplemented by inward migration are no longer tenable because fertility rates in the EU have fallen much lower than anyone expected in the 1990s and early-2000s.<sup>22</sup> In the 1990s, for example, only 5–10 percent of the population saw immigration as a major concern, and it rarely made it into the top five issues considered by EU citizens.<sup>23</sup> The picture is completely different in the 2020s. Now, 18 percent of EU citizens cite immigration as a leading issue, and immigration often makes it into the top three concerns among European citizens.<sup>24</sup> The issue is clearly upending European politics, with many people voting for anti-immigration across Europe. Then there are the economic problems that continued mass migration pose. Studies on migration in the European Union show clearly that migrants have greater dependence on welfare than native-born European citizens.<sup>25</sup> This does

22 Morgan, S. P. (2003). Is low fertility a twenty-first-century demographic crisis? *Demography*, 40(4), 589–603. <https://pmc.ncbi.nlm.nih.gov/articles/PMC2849155/>

23 Lahav, G. (2004). Public Opinion Toward Immigration in the European Union Does It Matter? *Comparative Political Studies*, 37(10), 1151–1183. [https://www.researchgate.net/publication/238685548\\_Public\\_Opinion\\_Toward\\_Immigration\\_in\\_the\\_European\\_UnionDoes\\_It\\_Matter](https://www.researchgate.net/publication/238685548_Public_Opinion_Toward_Immigration_in_the_European_UnionDoes_It_Matter)

24 European Commission. (2025). *Standard Eurobarometer 103 - Spring 2025*. European Union. <https://europa.eu/eurobarometer/surveys/detail/3372>

25 Conte, A., & Mazza, J. (2019). *Migrants and welfare dependency: Evidence from the EU*. European Commission. [https://knowledge4policy.ec.europa.eu/sites/default/files/tr\\_final\\_after\\_last\\_revision\\_21052019.pdf](https://knowledge4policy.ec.europa.eu/sites/default/files/tr_final_after_last_revision_21052019.pdf)

not mean that immigrants are a net drag on fiscal sustainability—they are not—but it does skew the fiscal balance in a negative direction relative to what it would be if there were no need to replace native Europeans with migrants to ensure population growth.

Today, around 14 percent of the population of the EU is born outside the EU. Recent studies suggest that based on current trends, the foreign-born share of the EU will rise to around 22–25 percent by 2050.<sup>26</sup> If this happens, we can only assume that discontent with immigration will become more pronounced. Societies can naturally absorb some levels of inward migration, but past a certain point migration flows become politically and socially destabilizing. The risk here is also economic. If Europeans eventually elect anti-immigration parties and immigration flows are cut, labor force growth will collapse. Since labor force growth is currently the largest driver of GDP growth, this means that GDP growth will also collapse. It is therefore in Europe’s best interest to try to promote higher internal labor force growth. This implies that policies should aim to increase fertility rates in Europe.

Hungary is the first country in the EU to experiment aggressively with these types of policies and make them a centerpiece of government policy. The policies were first introduced by the new Orbán government in 2010. In 2010, the Hungarian government was spending between 1.2 percent and 1.5 percent of GDP on family benefits. By 2019, this had risen to around 3 percent of GDP and in 2023 it had risen to around 5.5 percent of GDP. These policies have not yet managed to bring Hungarian fertility rates above the replacement rate of 2.1—a target the government hopes to reach by 2035<sup>27</sup>—but fertility rates have increased since they were introduced while similar countries, like Poland, have seen dramatic declines in their fertility rates.

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26 Marois, G., Potancokova, M., & Gonzalez-Leonardo, M. (2023). Demographic and labor force impacts of future immigration flows into Europe: does an immigrant’s region of origin matter? *Humanities and Social Sciences Communications*, 10(957). <https://www.nature.com/articles/s41599-023-02482-4>

27 Orbán, V. (2024, July 27). *Lecture of Prime Minister Viktor Orbán at the 33rd Bálványos Summer Free University and Student Camp* [Speech]. Viktor Orbán. <https://miniszterelnok.hu/en/speech-by-prime-minister-viktor-orban-at-the-33rd-balvanyos-summer-free-university-and-student-camp/>

It is reasonable to think that if there were a concerted effort on the part of the European Commission to address this issue, the impact of these policies would be much larger. Increasing fertility rates is certainly incentive-based, but ultimately it will only be achieved by changing behavior—which, in turn, requires changing the culture. Changing the culture is much easier if there is broader agreement that this needs to be done at the European level. Nevertheless, even with exclusively national policies, Hungary has seen more babies born than it would have without its family policy. Official estimates show that around 178,000 additional babies were born due to these policies, but there are good reasons to think that these estimates are too conservative.<sup>28</sup> If we model the increase in births in Hungary relative to the trajectory the country might have faced if it had followed Poland, we find that around 279,000 additional babies were born. Table 5 below models the impact that these additional births will have on long-term GDP growth moving forward.

	Official	Poland Model
<b>Extra Children 2010–24</b>	178,000	279,000
<b>Annual</b>	12,714	19,929
<b>Hungary per capita GDP</b>	21,510	21,510
<b>Annual GDP increase</b>	273,484,286	428,663,571
<b>in 000,000</b>	273	429
<b>GDP</b>	206,400	206,400
<b>%</b>	0.13	0.21
<b>GDP increase</b>	3,828,780,000	6,001,290,000
<b>in 000,000</b>	3,829	6,001
<b>% GDP</b>	1.86	2.91

*Table 5. Impact of Additional Births in Hungary Due to Family Policy. Source: Author's Calculations.*

28 Daily News Hungary. (2024, October 29). Hungary's pro-family policies yield positive demographic results, highlighted at COSAC conference. *Daily News Hungary*. <https://dailynewshungary.com/pro-family-policy-positive-results-cosac/>

As we can see, even the modest successes that Hungary has had in pursuing this policy alone has had a significant impact on long-run GDP growth moving forward. They have increased long-run annual GDP growth by between 0.13 percent and 0.21 percent, which means that they have already contributed between 1.86 percent and 2.91 percent to the long-run GDP of Hungary. By 2035, these policies will almost certainly have paid for themselves by ensuring that the Hungarian economy will be substantially larger in the future than it would have been without the increase in births. An EU-wide approach would no doubt be vastly more successful.

Yet family policy provides a particularly strong example of a policy that is much better handled at the level of national competency. While it is true that if the whole EU pursues these policies, they are far more likely to be successful, family formation remains deeply ingrained in national culture, so individual Member States are far better placed to allocate funding to family policy than the European Commission. For this reason, we advocate that the Commission work with national governments to distribute resources for family policy. The model here should be the European Social Fund Plus (ESF+).

The ESF+ is designed to allocate resources to invest in human capital, employment, and social inclusion and operates under shared management with EU Member States. The ESF+ is ingrained in the MFF but operates on the principle of “co-funding,” which means that Member States co-fund projects with the Commission. To do this, Member States themselves develop what are called Operational Programmes (OPs) tailored to the specific needs of their own citizens. These OPs are then negotiated with and approved by the European Commission. When they are approved, the OPs are implemented by national and regional authorities, which are designated by Member States. Both Member States and the European Commission then monitor the ESF+ implementation to ensure that spending is being allocated in line with previously agreed terms. The ESF+ provides the perfect model for EU-wide family policy.

A European-wide family policy would be based on the concept of “demographic leverage.” This means that funding should be allocated to a country based on how much that country is currently spending on family policy. The European Commission simply does not have the resources needed to run an extensive family policy, meaning that the optimal way to undertake this policy is for the Commission to provide a supporting role for the national governments. Under the “demographic leverage” rule, Member States would only receive 50 percent of allocated family policy funding unless they crossed a certain spending threshold, in which case all the funding would be unlocked. This threshold should be five times the allocated family policy budget for that country. So, for example, if a country had €1 billion allocated annually based on the country’s population and GDP, the country would only receive €500 million in funding until it could prove that it was spending €5 billion on family policy domestically. The unallocated funds are then pooled at the end of the year and divided between Member States that have met the conditions of the “demographic leverage” system in line with their population and GDP. There will be a hard limit on how much extra funds a country can receive, however, and the country should see no more than double their initial allocation from this pool. But if the country manages to achieve 10 times their annual allocated budget, they would be allowed access to triple their allocated funds but only if these funds were available in the pool. This system provides strong incentives for countries to increase their spending on family policy.



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